

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 1: Significant Accounting Policies**

A. Reporting Entity

These financial statements report the financial activity of transportation related funds administered by the Department of Transportation (Department). Department administered funds by classification are:

Special Revenue

State Aeronautics Fund  
State Trunkline Fund  
Michigan Transportation Fund  
Transportation Related Trust Fund  
Blue Water Bridge Fund  
Comprehensive Transportation Fund  
Combined State Trunkline Fund Bond Proceeds Fund  
Combined Comprehensive Transportation Bond Proceeds Fund

Debt Service

Combined State Trunkline Bond and Interest Redemption Fund  
Combined Comprehensive Transportation Bond and Interest Redemption Fund

The above funds are a part of the State of Michigan reporting entity and are reported in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The SOMCAFR provides general disclosures regarding summary of significant accounting policies, treasurer's common cash, pension benefits, compensated absences (annual leave and sick leave accumulations), general long-term obligations, interfund receivables and payables, contingencies, and commitments.

Note 1 continued on next page.

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2003**

On September 1, 2000, the International Bridge Authority paid off the 40 year bonds which financed the construction of the International Bridge at Sault Ste. Marie, Michigan. As a result, the International Bridge Authority was dissolved, and the Michigan Department of Transportation (MDOT) and the St. Marys River Bridge Company (SMRBC), a Canadian Corporation, share ownership of the International Bridge. A 40 year intergovernmental agreement between MDOT and SMRBC went into effect on September 1, 2000. This agreement formed the Joint International Bridge Authority (JIBA) and the International Bridge Administration (IBA). The JIBA is a non-profit organization with six members. Three members are selected by the Governor of Michigan and three by SMRBC, which is controlled by the Minister of Transport. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA. Neither owner is required to provide financial support for the bridge.

Summary financial information for the International Bridge Authority's audit periods ending December 31, 2002 & December 31, 2001 follows (in thousands):

	December 31, 2002	December 31, 2001
Assets	\$ 3,332	\$ 5,851
Liabilities	950	857
Total Equity	2,382	4,993
Total Revenues and Other Sources	4,873	6,765*
Total Expenditures and Other Uses	7,485	4,189
Excess of Revenues and Other Sources		
Over (Under) Expenditures and Other Uses	(2,612)	2,575

\* Total Revenues includes a \$341 gain on the sale of Fixed Assets.

The Mackinac Bridge Authority (Authority), a component unit of the State of Michigan, is reported in the SOMCAFR and is not reported in these statements. The Authority issues its own audited financial statements. Further information regarding the relationship between the Department and the Authority is provided in Note 10 of this report.

Note 1 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

B. Basis of Presentation

The financial transactions of the Department are recorded in individual funds in the Michigan Administrative Information System (MAIN). The various transportation funds are combined in the SOMCAFR into fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating funds that account for the proceeds of certain specific revenue sources, which are legally restricted for specified purposes.

Debt Service Funds: This group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

TOTALS (MEMORANDUM ONLY)

Amounts in the "total - memorandum only" columns represent summations of the fund types and account groups and are presented only for analytical purposes. The summations include interfund transactions, which have not been eliminated, and the captioned "amounts to be provided," which are not assets in the usual sense. Consequently, amounts shown in the "total - memorandum only" columns are not comparable to a consolidation.

C. Basis of Accounting

The financial statements contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, fiscal year ends, and accounting practices are explained in more detail in the SOMCAFR.

D. Calculation Practice

Amounts recorded in the Department's financial statements are rounded to thousands of dollars, unless otherwise noted. Because of this, the amounts may not add to the totals.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

E. Reserved Fund Balance

A comparative analysis of the State Trunkline Fund reserved fund balance at September 30, 2003 and September 30, 2002, follows (in thousands):

	FY 2003	FY 2002
Reserves:		
Capital Outlay:		
Facilities	\$ 18,932	\$ 19,101
Institutional Roads	1,064	1,567
Rail Grade Crossing	--	--
Critical Bridge	--	--
Road and Bridge	<u>200,951</u>	* <u>167,969</u>
Total Capital Outlay Reserves	220,948	188,637
Encumbrances	27,009	* 21,083
Restricted Revenue	233,602	232,920
Work Projects	5,705	5,037
Revolving Loan Program	14,472	18,390
Construction and Debt Service	55,247	45,315
Noncurrent Assets:		
Capital Equipment Loans	21,261	21,325
Maintenance Advances	7,956	8,365
Local Unit Loans	--	--
Total Noncurrent Assets	<u>29,217</u>	<u>29,690</u>
Total Reserved Fund Balance	<u>\$ 586,200</u>	<u>\$ 541,071</u>

\*Fiscal year 2002 has been restated to reflect State Trunkline Fund reserves without including the Blue Water Bridge Fund reserves.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 2: Budgeting and Budgetary Control**

The SOMCAFR provides disclosures regarding budgetary control. The budget column of the budget to actual statement represents legislative authorization after adjustments for carry-overs, transfers, and restricted revenue shortfalls. "Favorable variances" generally reflect unused general purpose spending authority ("lapses") and/or unused restricted revenue authority, which carry over as a reservation of fund balance and/or general purpose revenue exceeding estimates. "Unfavorable variances" reflect either general purpose revenue estimate shortfalls or budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

In 2003 and 2002, amounts were appropriated in the Blue Water Bridge Fund for operational costs and for partial repayment of the loan due to the State Trunkline Fund. Loan repayments made in fiscal years 2003 and 2002 were \$2.5 million and \$1.7 million, respectively. The repayment reduced amounts due to other funds. No expenditures were incurred and the related appropriation lapsed.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 3: Current Receivables**

A. Contested and Delinquent Receivables

Current receivables recorded in the financial statements represent amounts due to the Department as of September 30, 2003 and 2002, and will be collected within 12 months. Receivables not due for collection within 12 months are classified as long-term assets with an offsetting deferred revenue or fund balance reserve. Due to the uncertainty associated with contested receivables in litigation or pending litigation and delinquent receivables referred to a third party for collection, these receivables are recorded in an allowance for doubtful accounts, with the net amount reported in the financial statements (in thousands).

	<u>Contested</u>		<u>Delinquent</u>		<u>Fund Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
State Aeronautics Fund	\$1,527	\$5,594	\$ --	\$ --	\$1,527	\$5,594
State Trunkline Fund	9	--	2,900	5,277	2,909	5,277
Comprehensive Transportation Fund	3,216	3,000	55	271	3,271	3,271
State Trunkline Bond Proceeds Fund	--	--	264	264	264	264
Transportation Related Trust Fund	--	--	3	3	3	3
Total Allowance for Doubtful Accounts	<u>\$4,752</u>	<u>\$ 8,594</u>	<u>\$3,221</u>	<u>\$ 5,815</u>	<u>\$7,973</u>	<u>\$14,409</u>

B. Taxes Receivable

In the Michigan Transportation Fund, the net amount of current receivables, \$289.1 million and \$400 million, and allowances for uncollectible receivables, \$165.3 million and \$271.3 million, were recorded for motor fuel taxes due to the fund as of September 30, 2003 and 2002, respectively. The reporting of a gross receivable net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the SOMCAFR.

Note 3 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

C. Federal Highway Administration (FHWA) Receivable

The Department recorded federal aid receivables in the State Trunkline Fund, State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling \$119 million and \$141.6 million for the fiscal years ending September 30, 2003 and 2002, respectively. Of those amounts \$9.9 million and \$61.8 million, respectively, were recorded from the ATo-Be-Billed Summary@. The ATo-Be-Billed Summary@ consists primarily of project costs that exceeded the contract amounts agreed to by the FHWA and represent federal funds earned by the Department but not requested for reimbursement. Consistent with past practices, contract amounts will be increased as federal aid becomes available. No long-term federal aid receivables were recorded for fiscal year ending September 30, 2003.

D. Advance Construction

Under an agreement with FHWA, the Department has, over a period of years, qualified a number of construction projects without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of the Department, provided that there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government so that the states could obtain federal reimbursement not received during the construction period, in case a relatively greater amount of federal aid became available at some later date or to assist in balancing the federal aid from year to year. At the end of fiscal year 2002, the Department had \$353,752,751 of State Trunkline expenditures on projects not under reimbursement agreement. \$133,681,520 of these expenditures were placed under reimbursement agreement by the end of fiscal year 2003. The remaining \$220,071,231 is included in the fiscal year 2003 amount below. At the end of fiscal year 2003, the Department had \$455,013,425 of State Trunkline expenditures on projects not under reimbursement agreement.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 4: General Long-Term Obligations**

A. Revenue Dedicated Bonded Debt

The Department has periodically issued long-term bonds for specific purposes, with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The State of Michigan's general credit does not support such issues. Public Act 51 of 1951, as amended, provides that monies deposited in the State Trunkline Fund and/or the Comprehensive Transportation Fund are appropriated for specific purposes in order of priority. A sufficient portion of the State Trunkline Fund and the Comprehensive Transportation Fund is irrevocably appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The State Trunkline Series 1989-A, and the State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$35.7 million and \$97.7 million, respectively. These bonds are recorded in the amounts of \$28.6 million and \$69.1 million, respectively, which are the accreted values at September 30, 2003. These bonds mature in the years 2004 to 2009, and 2006 to 2013, respectively.

Revenue Dedicated Bonded Debt  
Department of Transportation (in thousands)

	Amounts	Outstanding		Maturities		Averag
	Issued	9/30/03	9/30/02	First	Last	Interest
				Year	Year	Rate %
<u>MI Comprehensive Transportation:</u>						
1996 (Series A Refunding)	22,650	21,280	22,280	1998	2014	5.42
1998 (Series A Refunding)	38,640	38,640	38,640	2005	2011	4.66
2001 (Series A Refunding)	27,765	27,765	27,765	2008	2022	5.01
2002 (Series A Refunding)	89,620	78,965	89,620	2003	2011	5.06
2002 (Series B)	82,310	82,310	82,310	2004	2022	5.13
2003 (Series A)	35,020	35,020		2004	2023	3.61
<u>State Trunkline Funds:</u>						
1989 (Series A)	135,779	28,582	26,702	1994	2009	6.97
1992 (Series A & B)	353,210	69,113	76,045	2000	2013	5.66
1994 (Series A)	150,000	9,860	18,625	1996	2006	5.50
1996 (Series A)	54,500	5,695	6,635	1998	2008	5.71
1998 (Series A Refunding)	377,890	377,890	377,890	2006	2027	5.09
2001 (Series A)	308,200	302,760	308,200	2003	2031	5.27
2002 (Series A Refunding)	97,870	97,870	97,870	2004	2022	4.71
<b>Total Revenue</b>						
<b>Dedicated Bonded Debt</b>	<b>\$ 1,773,454</b>	<b>\$ 1,175,750</b>	<b>\$ 1,172,582</b>			

Note 4 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

Advance Refunding and Defeasance

The Department has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues were placed in trust and used to purchase securities of the U.S. Government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements, as the Department defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes the defeased bonds outstanding at September 30, 2003 and 2002:

Summary of Refunding Transactions  
(In Millions)

<u>Bond Series</u>	<u>Amount Refunded</u>	<u>Balance with Trustee</u>	
		<u>2003</u>	<u>2002</u>
State Trunkline Fund Bonds:			
Series 1992A	194.2	0.0	194.2
Series 1992B	83.4	0.0	83.4
Series 1994A	120.3	120.3	120.3
Series 1996A	<u>43.9</u>	<u>43.9</u>	<u>43.9</u>
TOTAL	<u>\$475.1</u>	<u>\$164.3</u>	<u>\$441.9</u>

Note 4 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

B. Revenue Dedicated Notes Payable

The Department issued Grant Anticipation Notes in fiscal years ending 2001 and 2002. The Notes have variable rates that may bear interest at a daily interest rate, a weekly rate, note interest term rate, long-term interest rate, or an ARS interest rate. The Notes are issued in accordance with the authorization provided in P.A. 51 of 1951, as amended. The principal and interest on the Notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program.

Revenue Dedicated Notes Payable  
Department of Transportation (in thousands)

	<u>Amounts Issued</u>	<u>Outstanding</u> <u>9/30/03</u>	<u>9/30/02</u>	<u>Maturities</u>
2001 (Series A, B, C, D)	400,000	400,000	400,000	2008
2002 (Series A, B, C, D)	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	2009
<b>Total Revenue</b>				
<b>Dedicated Notes Payable</b>	<b>\$ 600,000</b>	<b>\$ 600,000</b>	<b>\$ 400,000</b>	

Note 4 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

C. Other General Long-Term Obligations

Capital Leases:

Capitalized lease liabilities are described in more detail in Note 5.

Compensated Absences:

Compensated absences liabilities are detailed in Note 6.

Claims and Judgments:

The liability recorded for claims and judgments consists of projected amounts for highway- related negligence cases based upon historical loss ratios. It should be stressed that the Department continues to vigorously contest all of these claims and that the Department may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the losses exceed the projected amounts).

Note 4 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

Changes in General Long-term Obligations:

Changes in general long-term obligations (in thousands) for the fiscal year ended September 30, 2003 and 2002, are summarized as follows:

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Bonds and Capital Lease Obligations:				
Balance - Beginning	\$ 1,172,582	\$ 1,121,496	\$ 1,002	\$ 2,108
New bond issues/capital lease additions and adjustments	35,020	269,800	--	--
Accretion on Capital Appreciation Bonds	6,023	5,651	--	--
Bond principal retirements/ capital lease payments and adjustments	<u>(37,875)</u>	<u>(224,365)</u>	<u>(84)</u>	<u>(1,105)</u>
Balance - Ending	<u>\$ 1,175,750</u>	<u>\$ 1,172,582</u>	<u>\$ 918</u>	<u>\$ 1,002</u>
Other Obligations:	Claims and Judgments		Compensated Absences Liabilities	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Balance - Beginning	\$ 1,128	\$ 4,628	\$ 30,449	\$ 29,654
Net increase (decrease) in estimated liabilities	<u>155</u>	<u>(3,500)</u>	<u>(3,018)</u>	<u>795*</u>
Balance - Ending	<u>\$ 1,283</u>	<u>\$ 1,128</u>	<u>\$ 27,431</u>	<u>\$ 30,449*</u>

\* - 2002 figures have been restated to reflect correct figures as reported in Note 6.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 5: Leases**

The Department leases office facilities under noncancelable leasing arrangements. Most leases have cancellation clauses with one to six month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote. Leases that are in the nature of acquisitions are classified as "capital" leases, therefore assets and liabilities are recorded at lease inception. Other leases are classified as "operating" leases, and these are treated as rent commitments rather than acquisitions.

Actual rental expenditures incurred under operating leases totaled \$1,157,591 and \$1,999,558 during fiscal years 2003 and 2002, respectively.

Summary of the noncancelable operating and capital leasing commitments to maturity for fiscal year 2003 follows (in thousands):

Noncancelable Lease Commitments Fiscal Year 2003					
Fiscal Year Ended September 30	Operating Leases	Capital Leases			Total
		Principal	Interest	Executory	
2004	\$ 1,571	\$ 92	\$ 68	\$ 56	\$ 216
2005	1,165	100	60	56	216
2006	311	109	50	56	216
2007	139	120	40	56	216
2008	116	132	28	56	216
<u>2009 - 2015</u>	<u>--</u>	<u>365</u>	<u>64</u>	<u>88</u>	<u>516</u>
Total	<u>\$ 3,302</u>	<u>\$ 918</u>	<u>\$ 310</u>	<u>\$ 367</u>	<u>\$ 1,594</u>

The above schedule is consistent with SOMCAFR in that it does not include leases for state owned buildings, leases for an amount less than \$10,000, lease extensions less than 12 months and lease payment changes less than \$200.

All of the above capital leases are related to governmental fund operations and the total of capital lease principal is recorded in the government-wide statements of the SOMCAFR.

Note 5 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

The historical cost of assets acquired under capital leases, which are included in the government-wide statements of the SOMCAFR, at September 30, 2003 and 2002, follows (in thousands):

	<u>2003</u>	<u>2002</u>
Buildings	\$1,320	\$1,320
Equipment	<u>    --</u>	<u>    --</u>
TOTAL	<u>\$1,320</u>	<u>\$1,320</u>

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
NOTES TO FINANCIAL STATEMENTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 6: Employee Benefits - Retirement and Compensated Absences**

A. Retirement Contributions

Department of Transportation employees are members of the State Employees' Retirement System. Retirement contributions are expended from the Department's special revenue funds to the State Employees' Retirement Fund.

The Department's retirement contributions were as follows (in thousands):

	<u>2003</u>	<u>2002</u>
State Trunkline Fund	\$22,030	\$18,961
Comprehensive Transportation Fund	897	643
State Aeronautics Fund	<u>493</u>	<u>404</u>
Total Department of Transportation Contributions	<u>\$23,421</u>	<u>\$20,008</u>

B. Compensated Absences

The Department has accrued liabilities for compensated absences as required by GASB. Liabilities related to governmental fund types are recorded in the government-wide statements in the SOMCAFR, unless the liability is "due and payable" (i.e., liabilities are recognized in the year employee leaves State service) at year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the applicable fund's balance sheet.

Note 6 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

The following table summarizes Department of Transportation related compensated absences liabilities as of September 30, 2003 and 2002 (in thousands):

<u>Total</u>	<u>Sick Leave</u>		<u>Annual Leave</u>			
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
State Trunkline Fund	\$ 13,715	\$15,165	\$ 11,601	\$13,106	\$25,316	\$28,271
Comprehensive Transportation Fund 1,168	611	626	520	542	1,132	
State Aeronautics Fund	525	530	279	313	804	843
Blue Water Bridge	<u>91</u>	<u>90</u>	<u>88</u>	<u>77</u>	<u>179</u>	<u>168</u>
<b>TOTAL</b>	<u>\$ 14,942</u>	<u>\$16,411</u>	<u>\$12,489</u>	<u>\$14,037</u>	<u>\$27,431</u>	<u>\$30,449</u>

If a Department employee transfers to another department, the related compensated absence liability is assumed by the employee's new department.

For a more detailed explanation of retirement benefits and compensated absence accruals, refer to the SOMCAFR.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 7: Capital Assets**

Capital assets owned by the Department, including property, plant, equipment, and infrastructure items (roads, bridges, ramps, railroads, rest areas, and welcome centers) are reported in the government-wide financial statements of the SOMCAFR. The capital assets reported by the Department have been expanded due to the implementation of GASB Statement No. 34. For more information on the reporting of capital assets under this Statement, see Note 9 of the SOMCAFR.

Classification: The following tables summarize, by major class of asset, fiscal year 2003 changes in reported costs for the Department's capital assets (in millions):

Changes in Capital Assets Fiscal Year 2003					
	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital assets, not depreciated:</u>					
Roads	\$10,292.0	134.1	(76.4)	--	\$10,349.6
Land & Land Improvements	2,814.6	12.4	(0.1)	1.0	2,828.0
Bridges	1,195.5	62.8	(44.2)	--	1,214.1
Construction in Progress	876.9	398.5	(176.3)	--	1,099.2
<u>Capital assets, depreciated:</u>					
Ramps	497.0	4.1	(0.2)	--	500.9
Equipment	113.7	4.0	(3.8)	(0.2)	113.7
Buildings	121.1	6.6	--	--	127.7
Railroads	35.0	--	--	--	35.0
Rest Areas & Welcome Centers	54.6	6.5	(1.1)	0.1	60.1
Land Improvements	2.8	--	--	--	2.8
Airports	1.9	--	--	--	1.9
<u>Less accumulated depreciation for:</u>					
Ramps	(271.4)	(20.0)	0.2	1.0	(290.1)
Equipment	(80.3)	(8.6)	3.6	2.0	(83.3)
Buildings	(36.4)	(3.2)	--	(0.7)	(40.3)
Railroads	(18.2)	(0.9)	--	--	(19.1)
Rest Areas & Welcome Centers	(25.8)	(1.3)	0.8	--	(26.3)
Land Improvements	(.7)	(0.1)	--	--	(0.8)
Airports	(.3)	(0.1)	--	--	(0.4)
Total Capital Assets	<u>\$15,572.0</u>	<u>\$594.8</u>	<u>\$(297.5)</u>	<u>\$3.2</u>	<u>\$15,872.7</u>

Note 7 continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Funding Source:** Following is a summary of funding sources for investments in capital assets as of September 30, 2003 (in millions):

<u>Fund</u>	<u>Investment @ 9/30/2003</u>
State Trunkline Fund	\$ 15,824.1
Comprehensive Transportation Fund	30.7
State Aeronautics Fund	<u>17.9</u>
<b>Total Investment in Capital Assets</b>	<b>\$ 15,872.7</b>

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 8: Excess of Expenditures Over Appropriation**

Budgetary control for State Trunkline Fund, Blue Water Bridge Fund, State Aeronautics Fund, Michigan Transportation Fund, and Comprehensive Transportation Fund expenditures is established by line-item appropriation within each fund's total appropriation.

The Department incurred no overexpenditures in fiscal year 2003 or in fiscal year 2002.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 9: Interfund Transfers by the Michigan Transportation Fund**

Interfund transfers are reported as other financing sources and uses on our Schedule of Revenues, Expenditures, and Changes in Fund Balances.

MDOT's most significant interfund transfer is the distribution of Michigan Transportation Fund (MTF) revenues to the State Trunkline Fund (STF) and Comprehensive Transportation Fund (CTF). This distribution is in accordance with section 247.660 of Public Act 51 of 1951, as amended.

MTF collects various taxes such as gasoline taxes, diesel taxes, motor carrier taxes, and vehicle license taxes. Before the distribution is calculated, various deductions are taken from MTF's total gross receipts. These deductions include funding for debt service payments, the Rail Grade crossing program, administrative costs for divisions within MDOT, and grants with other State agencies.

CTF receives ten percent of the remaining balance from MTF. After CTF's balance is distributed, additional deductions are taken for the Critical Bridge program, the Economic Development program, and the Local Road program. Three of the four cents a gallon that MDOT receives for gasoline taxes is then added to the total. STF receives 39.1 percent of the remaining balance.

Other transfers from MTF are also required by P.A. 51 of 1951, or the current year's appropriation bill. See the table below for MTF's interfund transfers in fiscal years 2003 and 2002.

<u>Interfund Transactions</u>	<u>FY 03</u>	<u>FY 02</u>
MTF Distribution – STF	\$646,616,100	\$641,056,029
MTF Distribution - CTF	162,323,709	160,530,656
Other State agencies	117,525,390	114,366,591
Debt Service	43,000,000	43,000,000
Economic Development Program	40,275,000	40,275,000
Local Road Program	33,000,000	33,000,000
Critical Bridge	7,155,600	7,383,948
Planning	5,523,383	5,840,700
Highways	3,136,863	2,543,489
Rail Grade Crossing	3,000,000	3,000,000
Railroad Safety & Tariffs	1,266,946	1,229,625
Finance and Administration	1,127,500	999,980
Worker's Compensation	--	35,900
Office of Information Management	<u>16,427</u>	<u>24,230</u>
Total	<u>\$1,063,966,918</u>	<u>\$1,053,286,148</u>

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
NOTES TO FINANCIAL STATEMENTS  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 10: Component Unit - Mackinac Bridge Authority**

The Mackinac Bridge Authority (Authority), which is reported as a governmental component unit in the SOMCAFR, has over the years received \$75.3 million of subsidies for operations (\$12.3 million) and debt service (\$63.0 million). These subsidies were provided by the State Trunkline Fund and the Michigan Transportation Fund, respectively, both of which are special revenue funds. The Authority redeemed its remaining bonds on July 1, 1986.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order 1986-14 created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the state funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid \$9,750,000 between fiscal years 1993 and 2002, with an additional \$250,000 repaid in fiscal year 2003, to the Michigan Transportation Fund. These repayments come directly from the revenue generated by bridge tolls and are not included as a financing use of the State Trunkline Fund. A balance of \$53,000,000 is owed to the Michigan Transportation Fund and a balance of \$12,306,172 is owed to the State Trunkline Fund.

For the fiscal year ended September 30, 2003, a current receivable of \$1,131,649.86 is recorded in the State Trunkline Fund's balance sheet as an amount due from component units for the authority's reimbursement of payroll and related expenses. An account payable due to the Department is recorded in the Authority's balance sheet.

Notes continued on next page.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

**Note 11: Contingencies and Commitments**

A. Litigation

The Department is party to various legal proceedings seeking damages and other relief including injunctive or mandatory relief. The ultimate disposition of such legal proceedings is not presently determinable, but such ultimate disposition and consequences of all these legal proceedings will not, themselves, in the opinion of the State of Michigan's Attorney General, have a materially adverse effect on the Department's financial position.

The Department accrues fund liabilities at year-end related to settled cases where the outcome and dollar amount of the claim is final. For unsettled cases, liability recognition or disclosure is recorded at the statewide level, dependent on whether the loss is probable or reasonably possible.

In March 2002, the County Road Association of Michigan (CRAM) and the Chippewa County Road Commission filed a lawsuit against John M. Engler and various State department directors concerning the provisions of Executive Order 2001-9. For further information on the lawsuit, see Note 23 of the fiscal year 2002 SOMCAFR.

As a result of Executive Order 2001-9 and the lawsuit, MDOT established a payable due to the State's General Fund for \$12.75 million within the Comprehensive Transportation Fund. Also, MDOT transferred \$20 million from the Michigan Transportation Fund to the Department of State, and established a payable due to Department of State for \$20 million associated with the collection of motor vehicle taxes and fees. In addition, MDOT transferred \$6.7 million from the Michigan Transportation Fund to the Department of Treasury for expenditures associated with the Department of Treasury's collection of motor vehicle taxes and fees.

B. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2003 and 2002, the Department estimates the disallowance of recognized revenues will not be material to the financial statements.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
**NOTES TO FINANCIAL STATEMENTS**  
FISCAL YEAR ENDED SEPTEMBER 30, 2003

C. Construction Projects

The Department has entered into construction contracts for transportation related special revenue funds and trust funds. As of September 30, 2003 and 2002, the balances remaining on these contracts equaled \$562.2 million and \$624.5 million, respectively. As of September 30, 2003 and 2002, the balances remaining on these contracts, less the trust fund equaled \$475.9 million and \$544.3 million, respectively. As of September 30, 2003 and 2002, the balances remaining on these contracts in the State Trunkline Fund equaled \$381.7 million and \$313.3 million, respectively.